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LIVESTOCK MARKETING ASPECTS OF THE U. S. DEPARTMENT OF AGRICULTURE

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The livestock industry, including poultry, is the source of 60 percent of the total gross income to agriculture in this country. In 1938 the contribution from livestock to the total amounted to more than five billions of dollars. In tonnage of output the industry supplies annually more than 100 billion pounds of milk, 3 billion dozen eggs, 1 billion pounds of meat and dressed poultry, 2 billion pounds of lard, more than 400 million pounds of wool, and 16 million pounds of mohair. The marketing and distribution of these products through the various channels of trade require many services and create numerous complex problems.

In order for the marketing machinery to function smoothly and efficiently it must be given constant and careful study because at no time has the marketing of our farm products reached a condition which could be termed in any way stable or static. Changes are constantly occurring, caused by new technical developments and by changes in competition. A change in location of producing areas or of population centers or a new development in transportation, refrigeration, processing, or communication quickly results in new competitive conditions which affect costs of processing, transporting, and marketing. They also often affect the demand for particular products, and this in turn creates new problems in marketing.

Establishment of the U. S. Department of Agriculture

A century ago, in 1839, Congress took the first step toward establishing the present Department of Agriculture when it made \$1,000 available to the Patent Office to distribute seeds and to collect agricultural statistics. In that year farm products were produced largely near consuming markets. Today, they may be produced in areas thousands of miles distant. Changes in transportation and in communication in the intervening 100 years have revolutionized the entire production and marketing system, giving rise to increasing competition between different producing areas and between individual products. The increasing distance between producers and consumers as population increased and the country developed, together with increased specialization, led to the rise of middlemen and to the shifting of many processing operations from farm to factory or to centralized points. All of this tended to increase the complexity of marketing and distribution and resulted in new marketing problems. In the course of these rapidly changing conditions it became apparent in time that the marketing of farm products was possessed of a national public interest because it involved the welfare of society as a whole.

First Programs in Livestock Marketing

The first consideration by the Federal Government of the Marketing problem as it related to livestock was with respect to the prevention of the spread of animal disease. Shortly after the Civil War our rapidly growing livestock export trade with Europe began to be seriously threatened as a result of the outbreak of certain diseases in this country. Because of these diseases the importing countries quickly imposed restrictive measures and in some instances barred all entry of our products. In order to remedy the situation Congress granted an appropriation for the establishment of a Veterinary Division in the Department of Agriculture and in May 1883 the first chief of the new Division reported for duty. This Division was the beginning of the present Bureau of Animal Industry although it was not until a year later that the Bureau was actually established by Act of Congress.

The new Bureau proceeded immediately to overcome the objections of the foreign Governments to our products. Contagious pleuro-pneumonia was eradicated and pork intended for export was subjected to microscopic examination for determination of disease. This resulted in reclaiming much of our lost export trade.

Developments with respect to our export trade and the necessity of an inspection service to insure this trade led eventually to the establishment of a Federal meat inspection service that would insure wholesome meats for domestic use. All meats moving in interstate commerce have had to comply with Federal regulations regarding wholesomeness and freedom from disease since the present inspection service became operative in 1906. This is one form of market supervision and regulation, and is one which no sensible person would desire to have discontinued.

If time would permit I might well mention some of the numerous accomplishments of the Bureau of Animal Industry in bringing various animal diseases under control and thereby facilitating the marketing of livestock. I need only to remind you, however, of what has been accomplished in the eradication of Texas fever through the elimination of the fever tick, the stamping out of the dreaded foot and mouth disease, and the control of hog cholera and animal tuberculosis. These scourges no longer cause the great losses formerly borne by stockmen and as a result of their elimination or control some of the most serious hazards in marketing have been removed.

The development of rail transportation and the increased use of these facilities for transporting livestock made it necessary to establish certain regulations with respect to providing feeding, watering, and resting facilities at convenient places enroute. This gave origin to the 28-hour law which requires that livestock in transit be given opportunity to rest and have access to feed and water at prescribed intervals. The purpose of this law is to provide for better handling of livestock, and thus reduce shrinkage and loss while in transit. The enforcement of this law, which was enacted in 1873 and revised in 1906 is another responsibility of the Bureau of Animal Industry. While the

law did not authorize measures to prevent overcrowding, the loading of hogs or calves with cattle without partitions, or the use of long-spiked prod poles, the Bureau was able to accomplish much in controlling abuses of this kind through cooperation with carriers, shippers, and other interested agencies, and in this way costs of transportation were lowered.

The Beginning of Marketing Research and Service

The early activities of the Department in livestock marketing were confined wholly to the prevention and control of animal disease, the development of a meat inspection service that would insure that the meats moving in commerce were wholesome, and the enforcement of regulations requiring that animals in transit and in public stockyards be given humane treatment. It was not until 1913 that the Department began to give definite consideration to other phases of marketing and distribution. In his annual report for the year 1917 the Secretary of Agriculture stressed the need for giving more attention to the economic problems of agriculture. In this report he stated: "We have been suddenly brought face to face with the fact that in many directions further production waits on better distribution and that the field of distribution presents problems which raise in very grave ways the simple issue of justice. Under existing conditions in many instances the farmer does not get what he should for his product, the consumer is required to pay an unfair price, and unnecessary burdens are imposed."

In order that the Department might be in position to give more attention to the problems of marketing Congress approved an Act on March 4, 1913, which conferred broad powers on the Secretary. The sum of \$50,000 was appropriated to start the new work. This was the beginning of most of the activities relating to marketing carried on by the Department today. In 1914 attention was first given to the problems of livestock marketing. The work was just starting when Europe became involved in the greatest war in history and which changed the entire economic life of this country.

The first efforts of the Department's specialists in livestock marketing were directed toward making a survey of existing marketing facilities and of the methods of marketing in use. Some attention also was given to marketing costs. Shipments of livestock were followed from the farm and range through the markets and slaughterhouses and after slaughter the meats obtained therefrom were traced through the various distributing channels to the final purchaser. In this way records were obtained of all the charges and the amounts retained by each distributing and handling agency, and the share of the consumer's meat dollar going to the producer was approximately determined.

Special attention was given to cooperative marketing, particularly local cooperative shipping associations which were just beginning to become popular with farmers because they seemed to offer possibilities of reducing marketing costs and of eliminating one middleman that might be dispensed with - the country livestock buyer.

Another phase of cooperative endeavor attracting attention at that time was the cooperative packing house. Efforts were being made to start these ventures, largely by promoters who were more interested in selling stock in the proposed enterprises than in actually having them operate successfully. The Department's survey of these undertakings made it possible to call attention to the weaknesses of this type of cooperative effort and what was needed to insure success. In this way many farmers were saved from heavy losses through investments in these highly speculative promotions.

Market News Service on Livestock and Meats

In 1916 in response to demands from various groups of stockmen, Congress made an appropriation to start a market news service on livestock and meats. There was a general belief that stockmen were greatly handicapped in the marketing of their livestock because of insufficient information regarding supply and demand conditions at public markets and in distributing centers, whereas packers and other buyers were in a much more advantageous position in this respect. With the establishing of this new Federal service, arrangements were made to collect and release information regarding the stocks of meat and lard in storage, trained market reporters were placed at the leading livestock markets and in the large wholesale meat distributing centers, and daily reports on trading activity, demand and supply conditions, and prices paid were made available to producers and others by all modern news disseminating facilities. For the first time livestock producers were being supplied with a market news service that was free from all suspicion of bias or self-interest. As the service was developed and expanded to include more and more of the nation's markets it became an integral part of the livestock marketing machinery, fully as essential in the economic life of the country as the postal service or our transportation facilities.

Grades and Standards for Livestock and Meats

The establishment of a market news service on livestock and meats necessitated giving attention to standardized grades and grade nomenclature which would be accepted and interpreted throughout the country. Standardization of grades provides a common language which enables buyers and sellers to arrive at a better understanding, and thus facilitates trading. It is essential in reporting markets correctly and it tends to encourage the sale of products on the basis of their true merit from the standpoint of quality.

The need for grade standards caused the Department to carry on considerable research to determine and appraise the various factors which might in any way determine or influence the grade of a product. On the basis of this research official grade standards for livestock, meats and wool have been developed and promulgated and they are being generally used in market reporting and in trading in most markets. Further research is now in progress with a view to improving the standards and correcting any deficiencies that may be apparent.

Standardization of grades for meats led to the establishment of a meat grading service by the Department which is made available to buyers and sellers on a fee basis. This service was started on a commercial basis in 1927 and was first confined to beef, but was later extended to other meats. This service facilitates wholesale and retail trading in meats and provides a basis for better understanding between buyers and sellers. Since Mr. Reed, Assistant Chief of the Agricultural Marketing Service, will discuss grading and standardization more fully in his paper I will pass on to some of the other activities.

The Packers and Stockyards Act

During the war there was much dissatisfaction on the part of producers with the livestock marketing system, due largely to the widespread belief that the large national packers exercised monopolistic control of all marketing facilities. This finally resulted in an investigation by the Federal Trade Commission and later to the passage of the Packer and Stockyards Act in 1921 which is administered in the Department. The purpose of this Act is to regulate the business conduct of the packers, the stockyards of the country, and the operators on such yards, insofar as their transactions are in the current of interstate commerce. As amended in August 1975, it also covers the marketing of live poultry. Briefly, the Act is intended to prohibit unfair practices and to establish reasonable rates for services rendered in the marketing of livestock and poultry.

Expansion of Livestock Production Statistics and Development of Outlook Information

Following the World War attention was given to refining and improving the various lines of economic research and service work started during the war period. Agriculture at that time was faced with many problems of readjustment and in order to aid farmers in planning their operations the Department made special efforts to strengthen and expand its work relating to the collection and interpretation of statistical information relating to agriculture. This included making surveys to ascertain the size of the annual pig and lamb crops, the number of cattle and lambs on feed, and obtaining other data which would indicate the probable volume of prospective marketings and the time of their occurrence. With the development of this statistical work it was possible to inaugurate the annual outlook service of the Department which was started in 1924 and has since been continued. In this service all available factual information relating to production, supplies, marketings, demand and prices, is assembled, analyzed, and interpreted by the Department's economists and other specialists, and made available to producers for their guidance in planning their production and marketing operations. In the last 16 years this service has comprised one of the most important activities in the economic work of the Department and in the more recent years it has served as the founda-

tion for much of the work being done to aid agriculture in its problems of readjustment to meet current economic conditions.

Emphasis on Production Adjustments in the 1930's

The big event in the 1930's was a severe business depression both in the United States and abroad. Unemployment and lower wages brought about a drastic reduction in the demand of city consumers of farm products. Also, partly as a result of the depression abroad, our foreign outlets for many farm products practically disappeared. Foreign governments began to raise tariffs and to establish quotas which severely limited our agricultural exports.

The cash income of American farmers fell from 11.2 billion dollars in 1929 to 4.6 billion dollars in 1932. Agricultural prices in 1932 fell to 65 percent of prewar parity. It became apparent that American agriculture could not expect to find profitable markets for the quantities which were being produced. To meet this situation some steps-- either temporary or permanent--were needed to bring about more desirable balances between agricultural production and industrial production, between production in different agricultural enterprises, between production in different areas, and between different uses of land.

This situation led to a number of "action programs" in agriculture and to an emphasis on problems of land use, soil conservation, and farm management. The Federal Farm Board program was discontinued. It would be a mistake, however, to conclude that marketing problems were neglected in the 1930's. The regular services of market news, grading and inspection, and regulation were continued. Also the "action programs" included several important undertakings in the field of marketing. Outstanding among these are the marketing agreements and orders, and the surplus purchasing programs.

On the whole, however, it is fair to say that our major emphasis in the 1930's has been on problems of production adjustment.

Rebirth of Interest in Marketing

As the decade draws to a close I believe there are signs of a definite rebirth of interest in marketing. A good, long-time agricultural program must be concerned both with the adjustment of agricultural production and with the adjustment of marketing methods and policies. With the marketing system absorbing over half the consumer's food dollar we can be sure that both the farmer and the consumer have a real stake in any policies which affect the efficiency of marketing. My observation is that within the past year or two public interest in marketing problems has grown rapidly. Expressions of this interest are coming from farmers, from consumers, from dealers, from Federal and State regulatory officials, and from research workers.

In the Federal Department of Agriculture more emphasis is being given to action programs in the field of marketing. Surplus purchases and relief distribution has been increased. A food Stamp Plan is being tried--with the dual purpose of moving surpluses and improving the diets of under-nourished families. Increased amounts of surpluses are being used in school lunch programs. The Ever-Normal Granary is another example of an experiment in marketing for the purpose of evening out supplies from year to year and stabilizing farm incomes. Subsidized exports of farm products is still another example of an "action program" in marketing. I think it is quite likely that the Federal and State governments will put greater emphasis on marketing programs in the 1940's than they did in the 1930's.

Also the reorganization of the Department of Agriculture during the past year has made it possible to do more effective work in marketing. Service and regulatory work in marketing has been placed in the new Agricultural Marketing Service. This work includes market news, grades and standards, crop and livestock estimates, and the enforcement of a number of laws, including the Packers and Stockyards Act. A Director of Marketing and Regulatory Work has been appointed to coordinate marketing programs of all agencies in the Department. The new Bureau of Agricultural Economics is responsible for research on matters of general policy in the whole field of agricultural economics, including marketing. The Department seems to be well prepared to do some real marketing work.

The Land Grant Colleges have taken steps to strengthen marketing research. At their recent national meeting they set up a procedure for developing cooperative Federal-State research programs dealing with broad regional or national marketing problems.

Some Current Problems in Marketing

I think it is an appropriate time for us to study some of our principal marketing problems in order that we can have a reasonably sound basis for developing policies which will be profitable to the farmer and beneficial to the general public. What are some of these problems? I would suggest a few as examples.

Perfecting present services. - Our market news and grading work has been described briefly. It was built up quickly during the War period and has since been adjusted a little from year to year in line with Congressional appropriations and improved here and there as a result of experience. It would be an appropriate time to study these services in some detail. Perhaps they could be strengthened and improved to give even greater benefits than in the past.

For example, one problem confronting the market news service is to provide useful information on shipments, receipts, and movement to market. Fifteen years ago reports from the railroads provided most of the material we needed along these lines. Today these reports are quite inadequate for many farm products and many areas because of the growing use of the motor truck. If our market news is to be most effective in supplying information about supplies of farm products we must find ways of reporting the supplies moving by truck.

Also the truck has tended to decentralize markets for livestock and other farm products. Price quotations in the big central and terminal markets may not always be satisfactory as indications of the prices a farmer can expect to get in the country. We need to study the most effective way of quoting prices under these conditions.

The rapidly changing market situation makes it desirable to review carefully many of our services and to see how they can be made more effective.

Marketing Costs and Efficiency

During the past few years the Bureau of Agricultural Economics has made some detailed studies of marketing costs and charges. They show that the spread between farm prices and city prices has gradually widened for many years. Moreover, they indicate that the relative inflexibility of marketing charges is an important factor tending to increase the severity of agricultural depressions.

These statistical studies are neither very important nor very useful unless they are followed by detailed studies of the efficiency of various services in marketing, transporting, and processing. In this connection, we are greatly interested in a program of livestock marketing research which has been proposed recently by the State Experiment Stations in the Central West. I understand that the State economists who have been working on the proposed program have about decided that the first studies to be undertaken should include an inventory of existing livestock markets in their States and an analysis of costs and efficiency to determine what sort of marketing institutions and facilities should be developed.

This kind of study is badly needed. I hope we can develop better research in this field than we have had in the past. It is not enough that we determine how to operate a given creamery efficiently. We need to study our whole marketing set-up to determine how many creameries are needed and where they should be. We need similar studies to determine how we can increase the efficiency of our whole transportation system; of our processing plants; and of our city markets - including retail stores.

The Nature of Competition

Most of our theories about markets are based on the assumption of rather complete competition. Yet we know that the situation in most of our markets can be described better by the term "imperfect competition". In the past 20 years the processing and distribution of farm products has become more concentrated into the hands of large corporations; such as the big packers, the tobacco corporations, and the chain stores. This presents many new problems both to the farmer and to the consuming public.

We will need to work out in the next few years policies for dealing with this situation in a way which will permit economies from large-scale operations and which will, at the same time, protect the farmer and the consumer from abuses.

Internal Trade Barriers

In recent years there has been an alarming tendency toward the development of local protectionism. Marketing regulations have been so written or administered that in many cases they definitely hamper the sale of agricultural products in our own domestic markets. Many kinds of regulations need to be reviewed and revised if American farmers are to have free access to American markets. These include sanitary inspection of food supplies, grades and standards, certain kinds of taxes, quarantines and embargoes, motor truck regulations, various kinds of license fees, regulation concerning peddling, and many other matters.

This is a problem which confronts not only the Federal Government, but also all the State and municipal governments. It is a problem which vitally affects agriculture.

These are, of course, only a few of the marketing problems which confront us. Many of you may be able to suggest others which are even more important. We are not likely to solve all these problems soon, but I hope and believe that the Department, together with the State Colleges and other agencies in the field, will be able to point the way to real improvements. It is a good time for a revival of interest in some of the big national questions of marketing policy.

